

Summary

- This paper proposes changes to the Pencombe Group Parish Council (PGPC) Banking arrangements

Recommendations

This paper recommends that-

- The current banking arrangement with HSBC is closed and a single current account is opened with Unity Trust Bank.

Current Banking arrangements

Presently Council holds two bank accounts both with HSBC-

A business current account (Community Account) used for day to day transactions. Internet banking is available on this account but any Council payments made by cheque require two Councillor signatures. Following normal practice the clerk is not a signatory on the account. There are no charges for the use of this account so long as it is kept in credit. No interest is paid.

A savings account (Business Money Manager Account) where Council reserves are kept. There are relatively few transactions on this account, activity being confined to transfers in of the bulk of the precept payments when received, and periodic transfers out to keep the current account at the required funding level. In principle interest is payable on funds deposited in this account but in practice only very small payments are currently made. With effect from June 2020 the interest rate is 0.01% gross delivering £1 per £10,000 deposited per annum.

Disadvantages with current banking arrangements

The present banking arrangements used by Council are almost identical to services offered by all High Street retail banks. These are large scale, "one size fits all" services designed to meet the needs of business users and generally work well for such users. However, Parish Councils, and to some extent all other public bodies, do not function in the same way as limited companies or partnerships. Banking staff trained to deal with companies/partnerships have no knowledge of public sector finance and in any case do not have authority to vary the standard arrangements to accommodate public sector organisations. Examples of these problems include-

- The bank has no understanding that the clerk as Responsible Finance Officer cannot actually spend anything without explicit Council authority.
- The bank assumes that since the clerk has no authority then the Councillors are the responsible finance functionaries. So every transaction, every letter, bank statement etc. by default will be addressed to Councillors or the Council.

- Should the clerk change, the bank is unable to create a seamless transition mainly because the clerk has no formal standing with regards to the account. The current clerk was unable to access the bank account for 4 months after appointment, which resulted in the accounts for 2018-19 being audited and published late.
- With increasing controls to minimise money laundering, fraud, etc. banks are required to prove to financial regulators that their customers are engaged in legitimate business. For HSBC the customer has to complete a 30-60 minute questionnaire annually attempting to answer questions such as “where did the start-up funding for the company come from”, “when was the company incorporated” “provide a copy of your articles of association” etc. The requirement to complete this questionnaire again this year is a major reason for changing banks.

Alternative banking arrangements

Other organisations have seen the poor services offered to Councils by High Street banks as an opportunity. Banking arrangements for “social enterprises” have been created focussed on parish councils, charities, trade unions and similar “not for profit” social undertakings. Unity Trust bank came to notice because it was rated no. 1 in 2018 by the Civil Society annual Charities finance survey. A summary of the survey results is in appendix 1 and Unity Trust shows well in all relevant questions. A quick check with HALC revealed no negative comments so further investigation of Unity Trust seemed warranted.

Banking Charges

A disadvantage of the smaller niche banks is that generally they charge for their services, whereas High Street banks are often free of charges while the account is in credit. Unity Trust have standing charges although there are no transaction charges so long as fairly generous limits are not breached.

For a current account suitable for PGPC (based on turnover) the charges are-

Turnover per annum	Under £100k
Fee	£6 per month Charged Quarterly
Opening deposit	Minimum £500
† Interest	No credit interest paid

Paying in of cash or cheques is free of charge up to (per month) £1500 cash or 15 cheques. A Freepost service is available for cheque paying in – an important factor in rural Herefordshire

Authorising Procedures

For all transactions Unity Trust operates a flexible one, two or three signature authorisation system. This can be tiered so that say, transactions up to £500 can be authorised by one person, whereas above that double or triple signatures can be required. This system is applied to online banking as well as cheques. This feature resolves the current problem of proper authorisation using multiple signatures when internet banking is used (Financial Regulation 6.9). If agreed the clerk can have authority to settle online payments up to an agreed limit. Beyond this limit Councillors would be asked to login and authorise the payments. As presently the two signature system would apply to cheques, but the opportunity exists to largely eliminate cheque payments through controlled online payments authorised at levels as Council sees fit.

Savings Account

Currently with interest rates at record lows there is no financial advantage to also running a savings account. Unity Trust's only savings product for an organisation the size of PGPC is the Instant Access account. It is free of charge but currently has a 0.0% interest rate. Transfer of funds to another account is the only transaction available. With no benefits apparent, it is recommended that all funds are held in a single current account and the situation reviewed as and when interest rates recover.

Charge Card

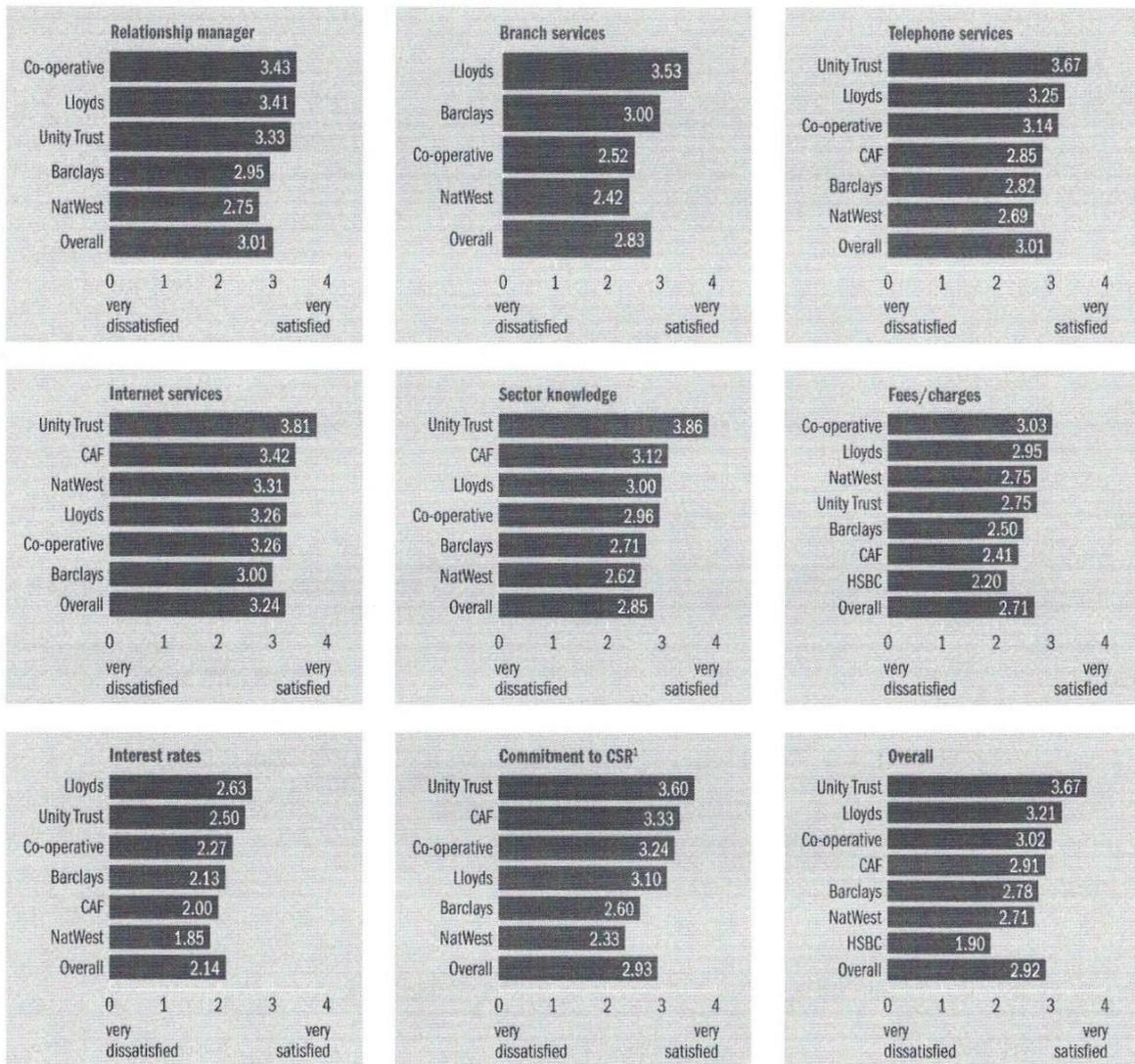
Unity Trust offers a charge card ("MultiPay") using Lloyds and MasterCard resources. Such a card is helpful if significant online purchases are being made since it would enable strict adherence to the rules on VAT reclaim. However, the need for a card is not proven. If a card became useful the charges for a MultiPay card are £50 one off setup and £3/month thereafter.

Recommendation

Although there some additional costs, Unity Trust emerges as a bank which is much more in tune with the needs of Parish Councils. Overall banking arrangements would be smoother and more transparent if PGPC used Unity Trust for banking. So, it is recommended that PGPC Council engage Unity Trust bank to provide Council banking services using one current account only. Unity Trust will manage the changeover and the existing HSBC accounts will be closed. According to Unity Trust's website changeovers are completed within one week of their receiving the required documentation.

Appendix 1 – Results of the Civil Society’s annual finance survey 2018

FIGURE 4: CUSTOMER SATISFACTION RATINGS



(1) Commitment to corporate social responsibility

Note: Banks with fewer than ten charities rating their services have been excluded. Satisfaction ratings have been calculated by assigning responses with values and then calculating an average: "very satisfied" = 4, "fairly satisfied" = 3, "slightly dissatisfied" = 2, "very dissatisfied" = 1